



[SEC File No. 270-232, OMB Control No. 3235-0225]

Proposed Collection; Comment Request

Upon Written Request, Copies Available From:

Securities and Exchange Commission

Office of FOIA Services

100 F Street, NE,

Washington, DC 20549-2736

Extension: Rule 17f-4

Notice is hereby given that, pursuant to the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) (the “Paperwork Reduction Act”), the Securities and Exchange Commission (the “Commission”) is soliciting comments on the collection of information summarized below. The Commission plans to submit this existing collection of information to the Office of Management and Budget for extension and approval.

Section 17(f) (15 U.S.C. 80a-17(f)) under the Investment Company Act of 1940 (the “Act”)¹ permits registered management investment companies and their custodians to deposit the securities they own in a system for the central handling of securities (“securities depositories”), subject to rules adopted by the Commission.

Rule 17f-4 (17 CFR 270.17f-4) under the Act specifies the conditions for the use of securities depositories by funds² and their custodians.

The Commission staff estimates that 794 respondents (including an estimated 768 funds

¹ 15 U.S.C. 80a.

² As amended in 2003, rule 17f-4 permits any registered investment company, including a unit investment trust or a face-amount certificate company, to use a security depository. See Custody of Investment Company Assets With a Securities Depository, Investment Company Act Release No. 25934 (Feb. 13, 2003) (68 FR 8438 (Feb. 20, 2003)). The terms “fund” or “fund series” are used in this Notice to mean a registered investment company.

that may deal directly with a securities depository, an estimated 13 custodians, including 7 sub-custodians and 13 possible securities depositories)³ are subject to the requirements in rule 17f-4. To the extent that Rule 17f-4(c)(4) provides that a sub-custodian can be qualified as a custodian for purposes of Rule 17f-4, sub-custodians are included as “custodians” in the estimates of burden hours and costs. While the rule is elective, most, if not all, funds use depository custody arrangements.⁴

Rule 17f-4 contains two general conditions. First, a fund’s custodian must be obligated, at a minimum, to exercise due care in accordance with reasonable commercial standards in discharging its duty as a securities intermediary to obtain and thereafter maintain financial assets. If the fund deals directly with a depository, the depository’s contract or written rules for its participants must provide that the depository will meet similar obligations. All funds that deal directly with securities depositories in reliance on rule 17f-4 should have either modified their contracts with the relevant securities depository, or negotiated a modification in the securities depository’s written rules when the rule was amended. Therefore, we estimate there is no ongoing burden associated with this collection of information.⁵

Second, the custodian must provide, promptly upon request by the fund, such reports as are available about the internal accounting controls and financial strength of the custodian. If a fund deals directly with a depository, the depository’s contract with or written rules for its

³ The Commission estimates that, as permitted by the rule, an estimated 4% of all funds may deal directly with a securities depository. The Commission estimates that, as permitted by the rule, an estimated 4% of all funds may deal directly with a securities depository. The number of custodians, including the number of sub-custodians is estimated from information collected from Form N-CENs filed with the Commission as of October 15,, 2021. In addition, the Commission staff estimates the number of possible securities depositories by adding the 12 Federal Reserve Banks and one active registered clearing agency. The Commission staff recognizes that not all of these entities may currently be acting as a securities depository for fund securities.

⁴ Based on responses to Item C.12 of Form N-CEN (17 CFR 274.101), approximately 96 percent of funds’ custodians maintain some or all fund securities in a securities depository pursuant to rule 17f-4.

⁵ The Commission staff assumes that new funds relying on 17f-4 would choose to use a custodian instead of directly dealing with a securities depository because of the high costs associated with maintaining an account with a securities depository. Thus, new funds would not be subject to this condition.

participants must provide that the depository will provide similar financial reports. Custodians and depositories usually transmit financial reports to funds twice each year.⁶ The Commission staff estimates that 13 custodians, including 7 sub-custodians, spend approximately 2,330 hours (by support staff) annually in transmitting such reports to funds.⁷ In addition, approximately 768 funds (i.e., four percent of all funds) deal directly with a securities depository and may request periodic reports from their depository. Commission staff estimates that depositories spend approximately 179 hours (by support staff) annually transmitting reports to the 768 funds.⁸ The total annual burden estimate for compliance with rule 17f-4's reporting requirement is therefore 2,509 hours.⁹

If a fund deals directly with a securities depository, rule 17f-4 requires that the fund implement internal control systems reasonably designed to prevent an unauthorized officer's instructions (by providing at least for the form, content, and means of giving, recording, and reviewing all officers' instructions). All funds that seek to rely on rule 17f-4 should have already implemented these internal control systems when the rule was amended. Therefore, there is no ongoing burden associated with this collection of information requirement.¹⁰

Based on the foregoing, the Commission staff estimates that the total annual hour burden

⁶ The estimated 13 custodians would handle requests for reports from 9,984 fund clients (approximately 768 fund clients per custodian) and the depositories from the remaining 768 funds that choose to deal directly with a depository. It is our understanding based on staff conversations with industry representatives that custodians and depositories transmit these reports to clients in the normal course of their activities as a good business practice regardless of whether they are requested. Therefore, for purposes of this PRA estimate, the Commission staff assumes that custodians transmit the reports to all fund clients.

⁷ (9,984 fund clients x 2 reports) = 19,968 transmissions. The staff estimates that each transmission would take approximately 7 minutes for a total of approximately 2,330 hours (7 minutes x 19,968 transmissions).

⁸ (768 fund clients who may deal directly with a securities depository x 2 reports) = 1,536 transmissions. The staff estimates that each transmission would take approximately 7 minutes for a total of approximately 179 hours (7 minutes x 1,536 transmissions).

⁹ 2,330 hours for custodians and 179 hours for securities depositories.

¹⁰ The Commission staff assumes that new funds relying on 17f-4 would choose to use a custodian instead of directly dealing with a securities depository because of the high costs associated with maintaining an account with a securities depository. Thus new funds would not be subject to this condition.

of the rule's collection of information requirements is 2,509 hours.

The estimate of average burden hours is made solely for the purposes of the Paperwork Reduction Act. This estimate is not derived from a comprehensive or even representative survey or study of the costs of Commission rules.

An agency may not conduct or sponsor, and a person is not required to respond to a collection of information unless it displays a currently valid control number.

Written comments are invited on: (a) whether the collection of information is necessary for the proper performance of the functions of the Commission, including whether the information will have practical utility; (b) the accuracy of the Commission's estimate of the burden of the collections of information; (c) ways to enhance the quality, utility, and clarity of the information collected; and (d) ways to minimize the burdens of the collection of information on respondents, including through the use of automated collection techniques or other forms of information technology. Consideration will be given to comments and suggestions submitted in writing within 60 days of this publication.

Please direct your written comments to David Bottom, Director/Chief Information Officer, Securities and Exchange Commission, C/O John R. Pezzullo, 100 F Street, NE, Washington, DC 20549; or send an email to: PRA_Mailbox@sec.gov.

Dated: December 15, 2021.

J. Matthew DeLesDernier,
Assistant Secretary.